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ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS IN PUBLICLY TRADED COMPANIES

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ANNUAL REPORT ON THE REMUNERATION OF DIRECTORS IN PUBLICLY TRADED COMPANIES

A- CORPORATE REMUNERATION POLICY FOR THE CURRENT YEAR

A.1 Explain the valid director remuneration policy applicable to the current year. Whenever relevant, certain information may be included by reference to the remuneration policy approved by the general meeting, so long as the inclusion is clear, specific and concrete.

Descriptions should be given for specific determinations for the year in progress regarding the remuneration of directors in their status as such and as a result of their executive functions carried out for the board pursuant to contracts signed with executive directors and the remuneration policy approved by the general meeting.

In any event, the following aspects should be reported:

-Description of the procedures and company bodies involved in determining and approving the remuneration policy and its terms and conditions.

-Indicate and, where applicable, explain whether comparable companies were considered when establishing the company's remuneration policy.

-Information on whether any external advisors took part in this process and, if so, their identity.

The Director Remuneration Policy at Viscofan S.A (hereinafter also referred to as "**Viscofan**" or the "**Company**") valid for 2019 was approved by the company's general shareholders' meeting held on 25 May 2018 as a separate item on the agenda (item six) and shall remain valid for the ensuing three years (hereinafter referred to as the "**Policy**").

The Policy establishes a remuneration system for directors based on (i) their capacity as such and (ii) specific executive or senior management functions:

(i) Remuneration of directors in their capacity as such.- The following aspects should be indicated:

- **a.** Limit.- The annual remuneration to directors in their capacity as such, for all the items, will not exceed the limit of 1.5% on the annual consolidated cash profit before taxes (article 29 in the company bylaws). The previous remuneration is, in any case, the maximum amount, corresponding to the Board itself, the proposed distribution of its amount between the directors. In this regard, payment thereof is settled after the general meeting approves the financial statements from the previous year.
- **b.** Concepts.- The Policy addresses two separate concepts:
  - **i.** a fixed remuneration as member of the Board of Directors and Committees, and according to posts, offices or functions borne in those bodies.
  - **ii.** attendance allowances for Board of Directors meetings.

The Company has civil liability insurance for directors and executives.

(ii) Executive director remuneration for executive duties.- For the performance of their executive duties, executive director remuneration comprises the following concepts:

- **a.** An annual fixed remuneration (which may also be referred to as "Salary" or "Pay") determined on the basis of the executive functions associated with the office and remuneration in comparable companies in the marketplace. While no significant variations are expected for the valid period of the Policy, the Policy shall nevertheless be updated (i.e. company developments, market analysis, macroeconomic indices such as the CPI).
- **b.** An annual variable remuneration, which is linked to the accomplishment of a combination of economic-financial, industrial, operational and qualitative objectives, on 70% of the Salary for the "Annual Variable Remuneration Objective" (*target*, i.e., when achieving 100% of the targets/objectives), and limited to a maximum 120% of the Annual Variable Remuneration Objective (84% of the Salary) when overachieving the pre-established targets.
- **c.** A long-term incentive plan to reward the achievement of the Viscofan Group's long-term strategic targets, sustainability of results and the creation of sustainable value for shareholders, in which case the limit of the Annualised Objective Incentive (annualised *target*) is 70% of the annual fixed remuneration with a maximum of 120% on the Annualised Objective Incentive (84% of the Salary) in case of over performance of objectives.
- **d.** Other benefits: life and accident insurance, healthcare assistance policy and company vehicle.

The valid Policy was drawn up by the company's Appointments and Remuneration Committee (the "**Committee**") after a process of reflection on the previously valid policy, considering the degree of alignment with corporate governance recommendations, market practices (particularly IBEX 35 companies) and shareholder interests. The process was carried out with advice from the consultancy *Willis Towers Watson*. The policy proposal was submitted to the Board of Directors and then, accompanied by the mandatory reports, submitted and approved by shareholders at the 2018 general meeting.

Within the framework established by the Policy per se, the Committee made a proposal in a meeting on 21 February 2019 to update the Salaries of executive directors and annual variable remuneration targets, which was subsequently approved by the Board of Directors on 28 February 2019. Upon conclusion of the three-year (2016-2018) plan, the Committee is also expected to draw up a long-term incentive plan according to the Policy for 2019-2021 to submit to the Board of Directors for approval, and the beneficiaries thereof will also include executive directors, senior management and other key personnel in the Viscofan Group.

-Relative importance of variable remuneration concepts vis-à-vis fixed concepts (remuneration mix) and the criteria and objectives used to determine and guarantee a suitable balance between fixed and variable remuneration items. In particular, explain the actions taken by the company in connection with the remuneration system to reduce excessive risk exposure and match it to the long-term targets, values and interests of the company, which should include, whenever pertinent, measures taken in relation to those categories of staff whose professional activities have a material impact on the risk profile of the entity; clawback formulae or clauses to reclaim variable components of performance-based remuneration when such components have been paid on the basis of data that is subsequently proven to be wholly inaccurate; and measures designed to prevent conflicts of interest, where applicable.

Furthermore, state whether the company has established any period for the accrual or vesting of certain variable remuneration items, in cash, shares or other financial instruments, any deferral period in the payment of amounts or the handover of accrued and vested financial instruments, or if any clause has been approved reducing the deferred remuneration or that obliges the director to return remuneration received, when such remuneration has been based on certain figures that have clearly proven to be inaccurate.

Executive director remuneration –Executive Chairman and Managing Director of the Viscofan Group; non-executive directors have no variable remuneration- is balanced in three main components:
- The fixed component, which is accrued in any case, so long as it is not an item entailing an exposure to risk.
- Annual variable remuneration, linked to the achievement of business operating and financial targets and objectives, which are set by the Committee and approved by the Board of Directors. The annual variable remuneration objectives, as they are primarily based on the annual budget, are aligned with the strategic vision and long-term objectives in the Viscofan Group's strategic plans (presently the 2016-2020 "MORE TO BE" Plan).
- The long-term variable remuneration arrangement, which considers fulfilment of the Viscofan Group's long-term strategic objectives, sustainability of the results and the creation of sustainable value for shareholders over a minimum horizon of three years.

In a standard target fulfilment scenario, variable remuneration represents approximately 60% of the total remuneration of executive directors, also including a balanced distribution between annual and multi-year remuneration.

The following risk mitigation elements must be considered:

-Group senior management has the same variable remuneration arrangement, which yields greater cohesion to management and discourage certain categories of executives from assuming excessive risks in their respective areas.
- The main function of the Committee throughout the process, analysing, selecting and proposing the targets, objectives and metrics on variable remuneration for executive directors and senior management. The main characteristics of the objectives are as follows: a) regularly reviewed to ensure that they are sufficiently demanding; b) measurable and quantifiable, whose weightings and achievement levels are approved by the Committee at the start of each year, for the annual variable remuneration, considering further factors, the economic situation, strategic plan, historic analysis, group budget and expectations or consensus of investors and analysts; c) tracked and monitored by the Committee during the measurement/reporting period; d) upon conclusion of this period, the Committee makes its final grade on fulfilment/achievement. In this assessment function, the Committee is backed by the Internal Audit Division, which functionally reports to the Audit Committee), Finance Division and other Divisions with responsibilities in this regard to receive information on the audited results. Both for the establishment of targets and for the evaluation of their achievement, the Committee also considers associated risks. Positive or negative economic effects derived from extraordinary events that could distort the results of the assessment shall be eliminated. The Committee will assess how much the established targets/objectives have been achieved and, in consideration of the weighting for all established metrics, determine the amount to pay executive directors, which must subsequently be approved by the Board of Directors, which shall use the audited financial statements for the reporting period as the basis for recognising the variable remuneration.
-The assessment of annual and long-term objectives/targets and recognition of the variable remuneration are carried

out based on the audited financial statements and limit the annual and multi-year variable remuneration to 70% of the fixed annual remuneration or Salary of the executive director for the target and 84% for overachievement in the indicated terms and conditions.
- The Policy includes an ex-post control of variable remuneration (Clawback) should the following circumstances arise within the twelve months following the date of payment:

a) Significant fall in consolidated net profit (over 50%)

b) Serious noncompliance by the beneficiary of the internal rules, including, in particular, risk-related rules.

c) Material reformulation of the group's financial statements, when thus considered by statutory auditors, except when appropriate according to amended accounting legislation.

- To reinforce the commitment of executive directors to long-term company interests and alignment with shareholder interests, the Policy includes a share ownership commitment in which executive directors must hold a number of shares equivalent to two years of gross fixed remuneration while they are in office. A period of four years is established to fulfil this objective, beginning from the effective date of the Policy or upon appointment for new directors, though the two existing executive directors hold shares that exceed the indicated threshold.
- Regarding measures to preclude conflicts of interest, the Regulations of the Board of Directors states that directors must inform of any conflict of interest (particularly for the annual assessment process) or have the duty to do so as soon as they become aware thereof, and must also immediately resign should this conflict persist or should their presence on the Board contravene the Company's interests. Directors must also refrain from discussing and voting on matters in which they have either a direct or indirect interest, even through related parties, except in the resolutions or decisions affecting their capacity as members of the Board, such as their appointment for or removal from positions within the Board.

Internal company policies also include the regulation on measures to prevent conflicts of interest, applicable to all Viscofan Group employees.

-Amount and nature of fixed components that directors are expected to receive in the year for their status as such.

Director remuneration for their capacity as such in 2019 has been kept in accordance with the Policy, namely:

- The Chairman of the Board shall receive a fixed remuneration corresponding to that office of €160,000.
- Board members shall receive a fixed remuneration for membership thereof of €80,000 each.
-An additional fixed remuneration will be paid to per office and membership on Committees of the Board of Directors:
  - Audit Committee: Chairman €45,000 and members €30,000
  - Appointments and Remuneration Committee: Chairman €30,000 and members €20,000

Allowances for attendance at Board of Directors meetings, to pay for personal and effective attendance at the meetings of the Board of Directors remain at €3,000 per meeting and director. The Chairman and Managing Director will receive no allowance whatsoever in this regard.
The Company has civil liability insurance for directors and executives, whose 2019 premium amounted to €47,614.

-Amount and nature of fixed components that executive directors will receive in the year for discharging duties of senior management.

The following 2019 fixed remuneration or Salary was established by the Board of Directors (as proposed by the Committee) for executive directors in consideration for discharging executive or senior management duties:
  - Chairman: €595,000
  - Managing Director: €458,000

-Amount and nature of any component of remuneration in kind that will accrue during the year, including, but not limited to, insurance premiums paid in favour of the director.

The remuneration in kind that will be accrued in 2019 for the concepts contemplated by the Policy (life/accident insurance premiums, healthcare and vehicles) is estimated at €10 thousand for the Executive Chairman and €25 thousand for the Managing Director.

-Amount and nature of variable components, differentiating between those established in the short and long term. Financial and nonfinancial parameters, including social, environmental and climate change parameters selected to determine variable remuneration in the year in progress, explaining the extent to which these parameters are related to performance, both of the director and of the company, together with their risk profile, and the methodology, deadline necessary and techniques established to determine the degree of compliance with the parameters used in the design of the variable remuneration at the end of the year.

State the range, in monetary terms, of the different variable components according to the degree of compliance with the objectives and parameters established, and whether any maximum monetary amounts exist in absolute terms.

Executive directors have the following remuneration system variables for 2019:
- Annual variable remuneration (2019). Annual Variable Remuneration Objective (*target or bonus*, i.e. for 100% fulfilment of the objectives/targets) of 70% on the Salary and a maximum of 120% on the Annual Variable Remuneration Objective (84% of the Salary) when overachieving the pre-established targets. The following objectives, targets and weighting were proposed by the Committee and approved by the Board of Directors in its meeting on 28 February 2019:
a) Corporate Objectives (50% weighting), comprising:
- The financial and profitability parameters, entailing increased sales, EBITDA, net profit, share price and reduced inventory/sales ratio, have a weighting of 90% on the corporate objectives:
- Nonfinancial parameters regarding improving in terms of accident rates and absenteeism have a weighting of 10% on the corporate objectives.
b) Objectives of individual executive directors (30% weighting).
c) Performance assessment: maximum 20%
At the end of the year, the Committee will determine the degree of objective fulfilment and performance of executive directors, and that percentage will be applied to the target or proposed bonus (70% of the Salary; up to 84% as the maximum for overachievement) to calculate the specific amount of the annual variable remuneration, which will be passed on to the Board of Directors for approval.

- Long-term incentive plan. This year, the Committee is expected to draw up (and submit to the Board for approval) a long-term incentive plan for 2019-2021 whose beneficiaries will include, in addition to executive directors, senior management and other key personnel of the Viscofan Group. The Plan will be proposed in observance of legislation and internal norms.

-Main characteristics of the long-term savings systems. In addition to other information, state the contingencies covered by the system, whether through defined contributions or benefits, the annual contribution that needs to be made to the defined contribution system, the benefits directors are entitled to in the event of defined benefit systems, the conditions under which economic rights are vested for directors and their compatibility with any other type of payment or severance pay as a result of the early termination or dismissal of the director, or deriving from the termination of the contractual relation, on the terms provided, between the company and the director.

State if the accrual or vesting of any of the long-term savings plans is linked to achieving certain objectives or parameters related to the short- or long-term performance of the director.

The Company has no long-term savings systems for directors.

- Any type of payment or severance pay for early termination or dismissal of the director, or deriving from the termination of the contractual relation in the terms agreed to between the company and director, whether voluntary resignation by the director, dismissal of the director by the company, or any other type of termination agreement reached such as exclusivity, post-contractual non-competition, continuance in office or loyalty, which would entitle the director to some sort of remuneration.

The following cases are addressed in executive director contracts:
- The compensation of two annual payments of the annual fixed remuneration for extinguishing the contractual relationship not attributable to the director, including termination initiated by the executive director in the following cases:
i) Substantial change in the terms and conditions of the provision of services that notoriously undermine the executive director.
(ii) Substantial change in the conditions of the provision of services of the executive director as a result of a significant

change in ownership of the Company that has the effect of renewing the governing bodies of the Company or in the content and approach of its main activity, provided that the termination occurs within three months after the production of such changes.

There will be no compensation if the dismissal is the result of gross misconduct, wilful misconduct and culpable conduct of the executive director in the performance of duties.

- Two-year non-compete agreement. The compensation for the two-year non-compete commitment is included in the compensation contemplated for termination of the relationship. In case of noncompliance with the non-compete commitment, the executive director must return the received compensation and pay three times its amount in damages.

-Indicate the conditions that must be met in the contracts for senior management functions as executive directors. Among other aspects, give information on the duration, limits to the amounts of indemnity, tenure clauses, notice periods and payments that can replace such notice periods, and any other clauses regarding hiring bonuses, as well as severance payments or ring-fencing for early cancellation or termination of the contractual relationship between the company and the executive director. Include, inter alia, covenants or agreements regarding non-competition, exclusivity, tenure or loyalty and non-competition after termination of contract, unless already explained in the section above.

Executive director contracts adapt to the following essential conditions:

- Commercial/business nature
- Indefinite.
- Notice of 6 months for voluntary termination (reciprocal). In case of failure to observe the 6-month notice period (reciprocal), the compensation shall be payment of the remuneration corresponding to the unfulfilled notice period.
-Compensations and post-competition covenants (refer to section above).
- The duty of confidentiality on information, data, reports or background information to which directors had access while in office shall persist even after they leave office, regardless of the reason.

Exceptionally, and in order to streamline the hiring of candidates, the Policy provides for the Committee the ability to submit a proposal to the Board of Directors for a hiring premium to offset any loss of incentives not accrued, and the possibility of an international assignment for such cases (e.g. housing supplement). Such circumstances did not occur, and the Company made no premium payment in this regard.

- The nature and estimated amount of any other supplementary remuneration that will be accrued by directors in the year in progress in consideration for services furnished other than those inherent in the post.

No supplementary remuneration other than the remuneration explained in previous sections are expected.

- Other remuneration concepts, including concepts deriving from the company providing advances, loans, guarantees or any other remuneration to directors.

None were or are expected to be granted.

- The nature and estimated amount of any other planned supplementary remuneration that will be accrued by directors in the year in progress not included in the previous sections, whether payment is made by the company or another group company.

There are not and will not be any supplementary remuneration other than the remuneration explained in previous sections.

A.2 Explain any relevant change in the remuneration policy applicable to the current year arising from:

- A new policy or amendment in the policy already approved by the General Meeting.

- Relevant changes in specific determinations established by the board for the current year on the valid remuneration policy compared with the ones applied in the previous year.

- Proposals that the board of directors agreed to at the general shareholders' meeting at which this annual report will be submitted and proposed as applicable in the current year.

The currently valid Policy was approved by Viscofan shareholders at the general meeting held on 25 May 2018 and applied in that year. There are no changes expected for the Policy in 2019.

A.3 Identify the direct link to the document where the current company remuneration policy is posted, which must be available on the company website.

http://www.viscofan.com/corporate-responsibility/corporate-governance/regulations-and-policies

A.4 Explain, taking into account the data provided in Section B.4, the outcome of voting, of a consultative nature, by shareholders at the general meeting regarding the annual report on remuneration for the previous year.

The annual remuneration report for the year ending on 31 December 2017 received the backing of the majority of shareholders, namely 95.11% of the votes cast, in line with previous years.

The Company submitted the Policy to shareholders for approval (item six on the agenda at the general meeting of 25 May 2018), which obtained support from 95.35% of the votes. Shareholders thus back the Viscofan director remuneration policies from 2018 and the amended version in the currently valid Policy.

B- GLOBAL SUMMARY OF HOW THE REMUNERATION POLICY WAS APPLIED DURING THE YEAR-ENDED

B.1 Explain the process followed to apply the remuneration policy and determine the individual remuneration contained in Section C of this report. This information will include the role played by the remuneration committee, the decisions taken by the Board of Directors and, as the case may be, the identity and the role of the external advisors whose services have been used in the process to apply the remuneration policy in the year ended.

The general meeting held on 25 May 2018 approved a new three-year remuneration policy (hereinafter referred to as the **Policy**). The previously valid remuneration policy had been applied until that date. As indicated in Section A.1, the valid Policy was drawn up by the company's Appointments and Remuneration Committee (the "**Committee**") after a process of reflection on the previously valid policy, considering the degree of alignment with corporate governance recommendations, market practices (particularly IBEX 35 companies) and shareholder interests. The process was carried out with advice from the consultancy *Willis Towers Watson,* focused on the study and proposal to draft the new Policy and the definition of the overall applicable parameters for the variable remuneration system.

The following aspects on the 2018 remuneration policy application process should be referred to separately:

- Fixed remuneration for directors in their capacity as such.

The Committee draws up and the Board approves the annual calculation of fixed remuneration accrued in 2018 by directors in their capacity as such considering their membership on the Board, the different committees thereof and posts or offices held. Section C of the present report contain these accrued amounts.

However, recognition and payment to each director is subject to the approval by the general shareholders' meeting of the annual financial statements for the year-end with a view to guaranteeing the statutory limit (article 29 in the company bylaws) in that the annual amount of remuneration (including all concepts) for directors in their capacity as such will not exceed 1.5% of the annual consolidated cash profit before taxes.

The calculation of accrued amounts considered the periods in which the year is divided for such purposes, until May 2018, and from June 2018. It should be borne in mind that the items approved at the general meeting on 25 May 2018 included the elimination of the Delegated Committee, and the Board of Directors agreed to make changes in the compositions of committees, in the deputy chairman (for which the new Policy has no specific remuneration), and the application, also beginning in June 2018, of the new remuneration for the Chairman of the Board for the office per se and the recognition of a fixed remuneration for the Managing Director for membership on the Board and in the terms and conditions contemplated for all other members.

Regarding attendance allowances for meetings of the Board of Directors, the Policy remains unchanged and the application process entails verification by the Secretary of the Board of Directors of the director's attendance at the meeting before settling the payment of €3,000 per session and non-executive director.

- Regarding the fixed remuneration of executive directors and further terms and conditions in their contracts.

The approval of the Policy determined the update of executive director fixed remuneration for duties as senior management and the adaptation of executive director contracts to other terms and conditions contained therein. Regarding remuneration in kind, the concepts recognised in 2018, which persist in 2019, entail life and accident insurance coverage, healthcare and a company vehicle.

-Regarding annual variable remuneration.

The following process was followed to apply the Policy and determine the accrued amount in 2018 regarding annual variable remuneration (contemplated only for executive directors):
- Proposal and approval of the corresponding objectives set by the Committee and Board of Directors respectively in February 2018 for the entire 2018, with quantified parameters and concession levels.

- Verification of the degree of fulfilment by the Committee, backed by Company divisions, including Internal Audit, in the meeting on 21 February 2019, and establishing payment proposals, which the Board of Directors approved in its meeting held on 28 February 2019, based on the audited financial statements drawn up on the very same date. This process remains in place for all group senior management.

- Regarding long-term incentives.

The process and intervention of the Committee and Board are the same as for the annual variable remuneration, differing in that the measuring period is three years, so long-term objectives are set and achievement assessments are conducted every three years. In particular, during the meeting on 21 February 2019, the Committee verified (and the Board subsequently approved on 28 February) the degree of achievement of the objectives in the three-year incentive period 2016-2018 and the amounts accrued by executive directors. These amounts will be paid out according to the Plan's regulations following the 2019 general meeting.

B.2 Explain the different actions taken by the company in relation to the remuneration system and how they have contributed to reducing exposure to excessive risks and adapting them to the long-term objectives, values and interests of the company, including a reference to the measures that have been adopted to guarantee that the long-term results of the company have been taken into consideration in the remuneration accrued and that a suitable balance has been attained between the fixed and variable components of the remuneration, the measures that have been adopted in relation to those categories of staff whose professional activities have a material repercussion on the company's risk profile and the measures that have been adopted to avoid conflicts of interest, if appropriate.

The response for this section is included in the different points under Section A.1 for the year in progress with references to actions that were already implemented or had been implemented in 2018 with the approval of the new Policy.

Turning to the remuneration of directors in their capacity as such, there is no excessive assumption of risks in setting a fixed remuneration and allowances, excluding the payment of variable remuneration for non-executive directors (who represent the majority on the Board of Directors at 80%), which promotes greater long-term planning when the Company and group establish strategy and action plans.

Regarding executive directors, the new Policy in 2018 incorporates elements that reduce exposure to excessive risks but increase alignment with long-term objectives.

- The fixed component was updated and increased so that, while aligned in the 25th percentile of the reference market (IBEX 35 companies), the post and responsibilities thereof are remunerated suitably, accruing in every case, in which regard there is no risk exposure therein.
- The Policy expressly sets maximum limits on annual and three-yearly variable remuneration, namely 70% on the Salary of executive directors for 100% fulfilment and 120% on the Annual Variable Remuneration Objective or Annualised Objective Incentive (84% on the Salary) for overachieving goals and targets.
- A reasonable balance is established between annual and multi-year remuneration (the latter having a 3-year minimum measuring period).
- A *clawback* clause is introduced through which the Company can recover the variable remuneration from executive directors in case of a series of circumstances during the twelve months following the date of payment of the variable remuneration.
- The compensation for contract termination was reduced, where pertinent, to two annual payments of fixed remuneration.

B.3 Explain how the remuneration accrued over the year meets the provisions contained in the currently valid remuneration policy.

Furthermore, report on the relationship between the remuneration obtained by the directors and the results or other performance measures of the company in the short and long term, explaining, as the case may be, how the variations in the performance of the company have influenced changes in the remuneration of directors and how the latter contribute to the short- and long-term results of the company.

The total remuneration accrued by directors in their capacity as such (€1,675 thousand) falls within the statutory limit (article 29 in the company bylaws and stipulated in the Policy) as it cannot exceed the limit of 1.5% on the annual consolidated cash profit before taxes. This amount is approximately 20% less than the amount accrued in 2017 (€2,078 thousand).

Within this limit, the Board is tasked with proposing the distribution of the amount amongst directors according to their posts with the Board and membership in the corresponding Committees. The accrued remuneration recognised by the

Company, according to the proposals formulated by the Committee and submitted to the Board of Directors for approval, stringently complies with the Policy:

- In terms of concepts, which are as follows:
  - Fixed remuneration and attendance allowances for directors in their capacity as such.
  - Fixed remuneration (Salary) and variable remuneration (annual and long-term) for executive directors, and remuneration in kind exclusively for the concepts contemplated in the Policy.
  - Regarding the variable remuneration, the accrued amounts in terms of annual variable remuneration and long-term incentive (2016-2018) do not exceed the established limits.
  - In particular, executive director variable remuneration was determined by the Board at the Committee's proposal after examining the audited financial reports, and is primarily linked, insofar as annual variable remuneration, to the Company's main operating and financial-economic indicators, and the multi-year remuneration is linked to indicators (creating value for shareholders, profitability and nonfinancial parameters) as detailed in Section B.7.
- Remuneration in kind did not exceed the 20% limit on fixed remuneration for executive directors.

B.4 Report on the outcome of the consultative vote of the general meeting on the annual remuneration report of the previous year, indicating the number of votes cast against, if any:

	Number	% of total
Votes cast	37,453,223	80.37%
	Number	**% of cast**
Votes against	1,543,238	4.12%
Votes in favour	35,622,921	95.11%
Abstentions	287,064	0.77%

Observations:

B.5 Explain how the fixed components accrued during the year by the directors in their capacity as such were determined and how they have changed with respect to the previous year.

Fixed components were determined according to the corresponding valid Policy. The previous remuneration policy and the one approved by the general meeting on 25 May 2018 both include fixed remuneration for directors in their condition as such, amounting to €80,000.

In accordance with the Policy, allowances were also applied to remunerate the personal and effective attendance of non-executive directors at the meetings of the Board of Directors: €3,000 for each meeting and director.

Fixed remuneration was also applied unchanged for members and the chairs of Board Committees:

- Audit Committee:
  - Chairman: €45,000
  - Member: €30,000

- Appointments and Remuneration Committee:
  - Chairman: €30,000
  - Member: €20,000

The new Policy applied following the general meeting, effective as of June 2018, caused the following variations:
- Reduced annual remuneration for the Chairman of the Board of Directors per se from €350,000 to €160,000.
- The fixed remuneration accrued by the Managing Director for membership on the Board of Directors is €80,000.
- The Delegated Committee no longer exists
- Elimination of specific remuneration for the first deputy chairman (€250,000) and second deputy chairman (€175,000).

In this regard, the sum of these remuneration concepts paid to directors in their capacity as such in 2018 stood at €1,676 versus €2,078 thousand in 2017 (approximately 20% less).

B.6 Explain how the salaries accrued by each one of the executive directors over the past financial year for the performance of management duties were determined, and how they have changed with respect to the previous year.

The fixed remuneration (Salary) of the Executive Chairman for duties in senior management in 2017 was €358,948. The Policy approved by the general meeting on 25 May 2018 set a new fixed remuneration of €585,000 for 2018.

The fixed remuneration (Salary) of the Managing Directors for duties in senior management in 2017 was €347,185. The Policy approved by the general meeting on 25 May 2018 set a new fixed remuneration of €450,000 for 2018.

According to the Committee Report justifying the new Policy, drawn up with the assistance of the consultancy *Willis Towers Watson* (report distributed to shareholders for the general meeting), the purpose of revising executive director fixed remuneration for their executive functions was to ensure a position within the 25th percentile of the reference market (IBEX 35) and also maintain the current proportion between the remuneration for the Managing Director and Chairman.

Section B.7 contains information on annual and multi-year variable remuneration for executive directors.

B.7 Explain the nature and the main characteristics of the variable components of the remuneration systems accrued in the year ended.
In particular:
Identify each one of the remuneration plans that have determined the different types of variable remuneration accrued by each of the directors in the year ended, including information on their scope, their date of approval, their date of incorporation, the periods of accrual and validity, the criteria used to evaluate performance and how this has affected the establishment of the variable amount accrued, as well as the measurement criteria used and the period necessary to be in a position to suitably measure all the conditions and criteria stipulated.

In the case of share options and other financial instruments, the general characteristics of each plan will include information on both the conditions to acquire unconditional ownership (vesting) and to exercise these options or financial instruments, including the price and term to exercise them.

Each director and category (executive directors, proprietary external directors, independent external directors and other external directors) who are beneficiaries of remuneration systems or plans that include variable remuneration.
As the case may be, information is to be provided on periods for the accrual or deferment of payment applied and/or the periods for withholding/unavailability of shares or other financial instruments, if they should exist.

Executive directors received variable remuneration in 2018 for the following two concepts or plans:

1. Annual variable remuneration. This remuneration has the following characteristics:
   - The measuring period: 2018.
   - Payment in cash.
   - Objectives proposed by the Committee and approved by the Board of Directors on 28 February 2018.
   - Remuneration depends on the fulfilment/achievement of (i) Group corporate objectives/targets (50%), (ii) individual objectives of each executive director (30%) and performance assessment made by the Board of Directors on the executive director (20%).
   - Group corporate objectives include: (a) Financial and profitability parameters (increased sales, EBITDA, net profit, share price and reduced inventory/sales ratio), with an 85% weighting on corporate objectives and (b) Nonfinancial parameters, with a 15% weighting in terms of accident rates and securing certifications in environmental management and occupational health and safety.
   - At the end of the year, the Committee determined the degree of objective fulfilment and performance of executive directors, and that percentage is applied to the Variable Remuneration Objective (target or proposed bonus), entailing 70% of the Salary to calculate the specific amount of the annual variable remuneration, which is then passed on to the Board of Directors for approval.
   - In application of the foregoing, the accrued annual variable remuneration in 2018 was €212,400 for the Executive Chairman and €163,400 for the Managing Director.

   This amount will be paid in the first quarter of 2019.

2. <u>2016-2018 long-term variable remuneration plan</u>. This Plan has the following characteristics:
   - The measuring period: 1 January 2016 to 31 December 2018.
   - Payment in cash.
   - Beneficiaries. Executive directors, senior management and identified key group personnel.

- Definition and payment eligibility criteria proposed by the Committee and approved by the Board of Directors on 28 February 2016. Plan Regulations approved by the Committee on 28 July 2016.
    - Total Shareholder Remuneration (TSR) (40%), considering the last four months of the period against the average four-month period in 2015, with a weighting between 30% and 100% based on whether a certain percentage was surpassed in the period.
    - Profit performance results (EBIT) (50%), with a weighting between 30% and 100% based on whether a certain percentage was surpassed in the period.
    - Accident rate reduction (10%), with a weighting between 30% and 100% based on the actual reduction in the period.
- At the Committee's proposal, the Board of Directors has determined that the degree of achievement with the objectives of the 2016-2018 Plan was 29.28%.

In application of the foregoing, the accrued multi-year variable remuneration in 2018 under the three-year plan (2016-2018) was €128,500 for the Executive Chairman and €98,800 for the Managing Director.

These amounts will be paid in the month following approval of the 2018 financial statements by the 2019 general meeting.

B.8 Indicate whether certain variable components were reduced or clawed back when, for the former, payment was vested and deferred or, for the latter, vested and paid, on the basis of data that were subsequently proven to be inaccurate. Describe the amounts reduced or clawed back through the application of the reduction or clawback clauses, why they were implemented and the years to which they refer.

No circumstances arose that would have entailed the reimbursement of variable remuneration.

B.9 Explain the main characteristics of the long-term savings systems where the amount or equivalent annual cost appears in the tables in Section C, including retirement and any other survivor benefit that are financed, totally or partially, by the company, whether through internal or external contributions, indicating the type of plan, whether it is a defined contribution or benefit, the contingencies covered, the conditions for vesting economic rights for directors and their compatibility with any type of severance pay for early termination or termination of the contractual relationship between the company and the director.

Not applicable. The remuneration policy does not cover long-term savings systems.

B.10 Explain, where appropriate, the severance pay or any other type of payment deriving from early dismissal or early resignation, or from the termination of the contract upon the terms provided for therein, accrued and/or received by directors during the year ended.

Not applicable. Did not occur.

B.11 Indicate whether there have been any significant changes in the contracts of persons exercising senior management functions, such as executive directors, and, where appropriate, explain such changes. In addition, explain the main conditions of the new contracts signed with executive directors during the year, unless these have already been explained in Section A.1.

Changes were already explained in Section A.1. In brief:
- Revision of the fixed remuneration of the Executive Chairman and Managing Director.
- Setting maximum limits on annual and three-year remuneration concepts.

    a) Regarding the annual variable remuneration, 70% on the Salary for the Annual Variable Remuneration Objective (target or 100% fulfilment of objectives/targets) and a maximum of 120% on the Annual Variable Remuneration Objective (maximum 84% of the Salary) when overachieving the pre-established targets.

    b) Regarding the long-term incentive plan, there should at least be a three-year measuring period with quantitative limits on the Annualised Objective Incentive (Annualised Target) of 70% on the annual fixed remuneration with a ceiling of 120% on the Annualised Objective Incentive (84% of the Salary)

- Ex-post control of variable remuneration (Clawback) should the following circumstances arise within the twelve months following the date of payment:

    a) Significant fall in consolidated net profit (over 50%)
    b) Serious noncompliance by the beneficiary of internal rules, particularly including risk-related rules.

c) Material reformulation of the group's financial statements, when thus considered by statutory auditors, except when appropriate according to amended accounting legislation.

- Share ownership commitment in which executive directors must hold a number of shares equivalent to two years of gross fixed remuneration while they are in office.

B.12 Explain any supplementary remuneration paid to directors as consideration for services rendered outside of their post.

Not applicable. There was no supplementary remuneration.

B.13 Explain any remuneration deriving from advance payments, loans or guarantees granted, indicating the interest rate, their key characteristics, amounts eventually returned and obligations taken on through guarantee or collateral.

Not applicable. Did not occur.

B.14 Itemise the remuneration in kind accrued by the directors over the year, briefly explaining the nature of the different salary components.

The remuneration in kind accrued in 2018 for the concepts contemplated by the Policy (life/accident insurance premiums, healthcare and vehicles) was €10 thousand for the Executive Chairman and €25 thousand for the Managing Director.

B.15 Explain the remuneration accrued by directors by virtue of payments made by the listed company to a third company at which the director renders services when these payments seek to remunerate the director's services to the company.

Not applicable. Did not occur.

B.16 Explain any other items of remuneration other than those mentioned in the previous sections, whatever their nature or the group company that settles the payment, particularly when this is a related-party transaction or the payment thereof distorts the true image of the total remuneration accrued by the director.

Not applicable. Did not occur.

C- INDIVIDUAL REMUNERATION CORRESPONDING TO EACH DIRECTOR

Name	Type	Accrual period 2018
JOSE DOMINGO AMPUERO OSMA	EXECUTIVE CHAIRMAN	1 January 2018 - 31 December 2018
JOSE ANTONIO CANALES GARCIA	EXECUTIVE DIRECTOR	1 January 2018 - 31 December 2018
IGNACIO MARCO-GARDOQUI IBAÑEZ	INDEPENDENT DEPUTY CHAIRMAN	1 January 2018 - 31 December 2018
JOSÉ MARÍA ALDECOA SAGASTASOLOA	COORDINATOR DIRECTOR	1 January 2018 - 31 December 2018
NESTOR BASTERRA LARROUDÉ	OTHER EXTERNAL DIRECTOR	1 January 2018 - 31 December 2018
AGATHA ECHEVARRIA CANALES	OTHER EXTERNAL DIRECTOR	1 January 2018 - 31 December 2018
JAIME REAL DE ASÚA Y ARTECHE	INDEPENDENT DIRECTOR	1 January 2018 - 31 December 2018
JUAN MARCH DE LA LASTRA	PROPRIETARY DIRECTOR	1 January 2018 - 31 December 2018
SANTIAGO DOMECQ BOHORQUEZ	PROPRIETARY DIRECTOR	1 January 2018 - 31 December 2018
LAURA GONZALEZ MOLERO	INDEPENDENT DIRECTOR	25 May 2018 - 31 December 2018
ALEJANDRO LEGARDA ZARAGÜETA	INDEPENDENT DIRECTOR	1 January 2018 - 25 May 2018

C.1 Complete the following tables regarding the individual remuneration of each director (including the salary received for performing executive duties) accrued during the year.

A. Remuneration from the reporting company:

i-) Remuneration in cash (in thousands of €)

Name	Fixed Remuneration	Allowances	Board committee membership remuneration	Salary	Short-term variable remuneration	Long-term variable remuneration	Compensation	Other concepts	2018 Total	2017 Total
JOSE DOMINGO AMPUERO OSMA	239	-	-	585	212	129	0	0	**1,165**	**859**
JOSE ANTONIO CANALES GARCIA	47	-	-	450	163	99	0	0	**759**	**642**
IGNACIO MARCO-GARDOQUI IBAÑEZ	80	33	53	0	0	0	0	0	**166**	**175**
JOSÉ MARÍA ALDECOA SAGASTASOLOA	80	30	42	0	0	0	0	0	**152**	**143**
NESTOR BASTERRA LARROUDÉ	184	33	54	0	0	0	0	0	**271**	**463**
AGATHA ECHEVARRIA CANALES	153	33	59	0	0	0	0	0	**245**	**388**
JAIME REAL DE ASÚA Y ARTECHE	80	33	30	0	0	0	0	0	**143**	**143**
JUAN MARCH DE LA LASTRA	80	30	20	0	0	0	0	0	**130**	**133**
SANTIAGO DOMECQ BOHORQUEZ	80	30	30	0	0	0	0	0	**140**	**143**
LAURA GONZALEZ MOLERO	47	18	17	0	0	0	0	0	**82**	**0**
ALEJANDRO LEGARDA ZARAGÜETA	33	15	13	0	0	0	0	0	**61**	**140**
TOTALS	**1,103**	**255**	**318**	**1,035**	**375**	**228**	**0**	**0**	**3,314**	**3,229**

Observations:

ii-) Table of changes in share-based remuneration schemes and gross profit from shares or consolidated financial instruments

Name	Plan	Financial instrument at start of 2018		Financial instrument vested in 2018		**Financial instrument consolidated in the year**				Instruments matured but not exercised	Financial instruments at end of 2018	
		Instruments	Equivalent shares	Instruments	Equivalent shares	Instruments	Equivalent/vested shares	Price of vested shares	Gross profit from vested shares or financial instruments (thousand €)	Instruments	Instruments	Equivalent shares

Observations:

iii-) Long-term savings systems

Name	**Remuneration from vesting of rights to savings**

Name	**Contribution over the year from the company (thousand €)**				**Amount of accumulated funds (thousand €)**			
	Savings systems with vested economic rights		**Savings systems with non-vested economic rights**		**2018**		**2017**	
	2018	**2017**	**2018**	**2017**	**Savings systems with vested economic rights**	**Savings systems with non-vested economic rights**	**Savings systems with vested economic rights**	**Savings systems with non-vested economic rights**

Observations:

iv-) Details for other concepts

Name	Concept	Amount
JOSE DOMINGO AMPUERO OSMA	**Life and accident insurance premiums** **Healthcare policy** **Company car**	**10**
JOSE ANTONIO CANALES GARCIA	**Life and accident insurance premiums** **Healthcare policy** **Company car**	**25**

Observations:

B. Remuneration to company directors for seats on the boards of other group companies:

i-) Remuneration in cash (in thousands of €)

Name	Fixed remuneration	Allowances	Board committee membership remuneration	Salary	Short-term variable remuneration	Long-term variable remuneration	Compensation	Other concepts	2018 Total	2017 Total

Observations:

ii-) Table of changes in share-based remuneration schemes and gross profit from shares or consolidated financial instruments

Name	Plan	Financial instrument at start of 2018		Financial instrument vested in 2018		**Financial instrument consolidated in the year**				Instruments matured but not exercised	Financial instruments at end of 2018	
		Instruments	Equivalent shares	Instruments	Equivalent shares	Instruments	Equivalent /vested shares	Price of vested shares	Gross profit from vested shares or financial instruments (thousand €)	Instruments	Instruments	Equivalent shares

Observations:

iii-) Long-term savings systems

Name	**Remuneration from vesting of rights to savings**

	Contribution over the year from the company (thousand €)				Amount of accumulated funds (thousand €)			
	Savings systems with vested economic rights		Savings systems with non-vested economic rights		2018		2017	
	2018	2017	2018	2017	Savings systems with vested economic rights	Savings systems with non-vested economic rights	Savings systems with vested economic rights	Savings systems with non-vested economic rights

Observations:

iv-) Details for other concepts

Name	Concept	Amount

Observations:

C. Summary of the remuneration (in thousands of €):

This should include a summary of the amounts corresponding to all the remuneration items included in this report that have accrued to each director, in thousands of euros.

	Remuneration accrued at the Company					Remuneration accrued at Group companies				
Name	**Total cash remuneration**	**Gross profit from vested shares or financial instruments**	**Remuneration from savings systems**	**Remuneration from other concepts**	**Total 2018 company**	**Total cash remuneration**	**Gross profit from vested shares or financial instruments**	**Remuneration from savings systems**	**Remuneration from other concepts**	**Total 2018 Group**
JOSE DOMINGO AMPUERO OSMA	1,165			**10**	1,175					
JOSE ANTONIO CANALES GARCIA	759			**25**	784					
IGNACIO MARCO-GARDOQUI IBAÑEZ	166				166					
JOSÉ MARÍA ALDECOA SAGASTASOLOA	152				152					
NESTOR BASTERRA LARROUDÉ	271				271					
AGATHA ECHEVARRIA CANALES	245				245					
JAIME REAL DE ASÚA Y ARTECHE	143				143					
JUAN MARCH DE LA LASTRA	130				130					
SANTIAGO DOMECQ BOHORQUEZ	140				140					
LAURA GONZALEZ MOLERO	82				82					
ALEJANDRO LEGARDA ZARAGÜETA	61				61					
TOTALS	**3,314**			**35**	**3,349**					

Observations:

D. OTHER INFORMATION OF INTEREST

If there are any relevant issues relating to director remuneration that could not be addressed in the previous sections of this report, but which are necessary to provide more comprehensive and fully reasoned information on the remuneration structure and practices of the company with regard to its directors, list them briefly.

This annual remuneration report was approved by the company's board of directors at its meeting on: 28 February 2019

Indicate whether any board members voted against or abstained from voting on approving the present Report.

Yes: No: X

Name or company name of the member of the board of directors who voted against approving this report	Reasons (against, abstention, nonattendance)	Explain the reasons